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Essentials

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Excess Liquidity: What to Do?

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Many credit unions are faced with the challenge of carrying too much cash while dealing with the combined headwinds of lower credit demand and ultra low, shorter maturity yields for governments, agencies, and other eligible spread instruments. In the meantime, member demand for the best possible rates remains ever present. It appears the global economy and capital markets face continued challenges that will keep economic growth at bay and interest rates lower than expected.

"While we're all aware market conditions can and will change, credit union management should prepare for an extended deposit-rich, low-rate, low-credit-demand environment for the next 12 to 24 months," writes Scott Powell for *Credit Union Magazine*. Here are his suggestions:

1. Reduce deposit assets

For credit unions that have an investment program, members may be encouraged to visit the investment representative to look at alternatives to core credit union deposits, such as fixed or single-premium immediate annuities, money market mutual funds, short duration funds, or other alternatives.

While deposits are reduced, the credit union still retains some control over them because members aren’t taking their deposits to another financial institution, eager to expand their relationship.

For credit unions without an investment program, a possibility may be to partner with a local investment representative to accomplish the same objective.

A secondary benefit from a reduction in deposits is that your National Credit Union Share Insurance Fund assessment may be lower.

2. Work with institutional fixed-income managers

Find someone who understands your business and objectives to access scalable investment talent and platforms that also provide narrow institutional pricing and proven value-added results. In this tight-spread environment, every basis point earned and/or saved counts.

As part of your investment portfolio, consider leveraging other financial institution balance sheets through insured certificate of deposit (CD) purchases either through direct purchase or a brokerage account. Some institutions are offering CD rates that are a function of higher lending demand as opposed to being priced on the Treasury yield curve.

3. Monitor deposit rates
Closely monitor competitive deposit rates and consider keeping your credited rates at the lowest end of your competitive and philosophical range—a hard balancing act, we know.

4. Boost lending [*See the next article for some lending ideas*]
Continue to develop highly targeted, value-added lending programs to higher-quality credits within your member profile to build the asset side of your balance sheet in a prudent manner.

While these strategies may not offer anything particularly new, if managed collectively and consistently over a defined time period, we think you'll be pleasantly surprised at the constructive results your organization can generate.

Scott Powell is managing director, general account investments, for MEMBERS Capital Advisors Inc., the wholly owned investment advisory subsidiary of CUNA Mutual Group. Contact him at 608-231-7500.

Lending Programs That Are Working in Delaware

Good loans are difficult to come by these days. Credit unions are dropping their auto loan rates, some as low as 3.49% (4-6 year term); 3% for 60 month term. Here are some ideas advanced during recent roundtables for programs that are working for Delaware credit unions.

Manequity Loans. Delaware Alliance FCU (DAFCU) offers manequity "Mapother's no-equity" loans. This loan is an option when borrowers are in need of a signature loan but also wish to qualify for tax deductions. If the loan does not totally qualify as a signature loan, it cannot qualify as a manequity loan. According the vice president Savannah Jarrell, the loan is underwritten as a signature loan but documented as a real estate loan. So if there is any equity in their homes, members can take it off their taxes, but they do not need to have equity in the home to get a manequity loan. DAFCU sends out the tax form, and it is up to the members' tax preparers to determine if the members can take it off their taxes. DAFCU does not sell the loan as a tax deduction. The loan must qualify as a signature loan within the lenders' unsecured lending guidelines. If the loan does not qualify as an unsecured loan, a member cannot use the manequity loan. The consensual lien is an additional protection. This type of loan is also good in a collection situation when the member asks for payments to be reduced or in a workout program.

Indirect Lending. Indirect lending is helping generate some vehicle loans. The credit unions are choosing better loan paper than some of the bank lenders, which may not motivate the dealers to send many loans to the credit unions, but even a few loans are better than none. Sussex County FCU and American Spirit FCU are using CUDL (www.cudl.com) for indirect lending. Caution: The National Credit Union Administration (NCUA) is looking closely at indirect lending programs as they pose potential risks to the lender.

Small Business Loans.

- American Spirit FCU uses a CUSO for small business loans. Larger loans may be participated out to spread the risk. They also feel that CUDL (indirect lending) is helping to provide loans for their credit union. Dover FCU is looking at a CUSO, CUBG, for business loans. CU Business Group offers independent loan review services for credit unions. Louviers FCU uses Newtek as a turnkey provider of small business loans. Newtek provides SBA-guaranteed small business loans, accounts receivable financing, and commercial real estate financing.

Proactive Loan Procedures.

- American Spirit FCU contacts their members who have recently received loans elsewhere and offers a better rate if they refinance with the credit union.

- Delaware First FCU previously offered a "Millionaire for a Day" promotion. Members who signed up for new services placed their names into a drawing. Winners were given one day's dividend on a million dollars. With dividend rates so low these days, the amount out-of-pocket for the credit union is minimal.

- DEXSTA FCU administers a pre-screening program to pre-qualify members and non-members for loans.

- CUNA Mutual's Auto Recapture program is a simple process and may be productive in generating loans.

Short Term Loans (STS). The NCUA last month made a final rule that allows federal credit unions to offer STS loans to their members as an alternative to predatory payday loans that are offered by other financial service providers. The final rule allows federal credit unions to charge an interest rate that is a maximum of 10 percentage points above the established usury ceiling at that time. A $20 application fee may also be charged. The loans may total as high as $1,000 and may last for as long as six months. The loans will not be permitted to rollover. For information, go to NCUA's Regulatory Alert 10-RA-13 at http://www.ncua.gov/Resources/RegulatoryAlerts/Files/2010/10-RA-13.docx

- American Spirit FCU: Spirit Advance is their short term loan. The maximum loan limit is $500 which must be repaid in three months. Credit history is not considered for approval. A financial education component is also required. The credit union guides the member to Credit Consumer Counseling Services for this. American Spirit has approximately $30,000 out in Spirit Advance loans.

- Delaware Alliance FCU: The "Pot of Gold Loan" is their short term loan. The borrower pays twice the payment amount each month. One payment amount is deposited in their shares and frozen until the loan is paid off. That way, the member has created a savings account.

- Chestnut Run FCU: The "Credit Rebuilder Loan" offers $500 loans to members with credit problems. All proceeds from the loan are deposited into the borrower's share account for collateral until the loan has been repaid. Once the loan has been paid in full, the borrower is free to withdraw the funds or to use them to consolidate debts. To help prevent the borrower from encountering credit problems in the future, Chestnut Run's loan officers provide debt counseling throughout this program. The goal of the program is to help members build their credit score to qualify for traditional loans.

Best Practice: Five Mistakes to Avoid as a Small CU CEO

Question: Given current economic conditions and the increasing reliance placed on leadership, it is more important than ever for CEOs, particularly those of smaller institutions, to be cognizant and aware of their operations. What are some common mistakes a small credit union CEO may make?

Answer: Five of the more common mistakes potentially made are:

- Taking a "one-size-fits-all" approach when dealing with employees or members;

- Not thinking beyond the Status Quo;
- Discontinuing education and training to reduce costs;
- Maintaining a lack of concentration on compliance issues; and
- Never owning their mistakes.

As the president and CEO of the $7.6 million in assets BNSF Credit Union in Amarillo, Texas, for almost nine years, my job, as well as any CEO's regardless of size or numbers, is to plan, strategize, make decisions and execute with direction. We all make mistakes and that's how we learn – it's how we handle mistakes that allow us to move forward.

<u>Question</u>: In the event of an error or misunderstanding, what is the best way to address the situation and communicate the results to our staff or members?

<u>Answer</u>: Once we own our mistakes, we can then concentrate on a solution. At that point, a mistake can be handled successfully. But when you do not place blame or ownership for the mishap, you do not allow for a more creative flow of ideas or solutions.

Our best asset is a well-trained staff; and while meeting the requests and answering the questions of our 1,400 members is not always easy, there are ways to address any problematical situation to ensure it does not happen again.

The bottom line is to not limit yourself from drawing inspiration or ideas from small credit union leaders. Network and collaborate, get out there and see what your colleagues are doing.

We're all sharing the same mission of "people helping people" – we just do it on a much smaller scale.

Sandra Allm is president of BNSF CU, and the Texas Credit Union League's " 2010 Small Credit Union Achiever of the Year."

The Delaware Credit Union League is sensitive to the critical needs of smaller credit unions, offering affordable training and educational events to assist in comprehension and delivery of information, be it on legislative affairs or training the best frontline staff. And this does not even include the scholarship and compliance programs offered by the Delaware League.

NCUA Helps Small Credit Unions with a Compliance Guide

Title V of the Gramm-Leach-Bliley Act ("GLBA" or "the Act") requires a financial institution to notify all of its customers about its privacy policies and practices with respect to disclosing information to its affiliates and nonaffiliated third parties. The Act prohibits a financial institution, subject to certain exceptions, from disclosing nonpublic personal information about a consumer to nonaffiliated third parties unless the institution satisfies various notice requirements and the consumer has not elected to opt out of the disclosure.

NCUA published regulations implementing the privacy provisions of the Act 12 C.F.R. Part 716. NCUA's regulations are referred to as "the consumer privacy rule" throughout this compliance guide. This guide includes references to sections in the regulation, for example, "§716.13," so users can refer to the regulation.

NCUA's consumer privacy rule was developed in coordination with the other regulators of financial institutions: the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Board of Governors of the Federal Reserve System (FRB), the Federal Trade Commission (FTC) and the Securities and Exchange Commission (SEC) (collectively, the "Agencies"). Each of the other Agencies has also issued regulations to implement the privacy provisions of GLBA, which are comparable and consistent with NCUA's consumer privacy rule. The Agencies consulted with representatives of state insurance authorities in the process of issuing their regulations. The Commodity Futures Trading Commission (CFTC) recently also issued comparable and consistent regulations.

NCUA has addressed this small credit union compliance guide to all federally insured credit unions. This small credit union compliance guide supplements the NCUA's regulations but is not a substitute for any provision of the regulations.

To access NCUA's *Small Credit Union Compliance Guide* click on the following link:
http://www.ncua.gov/Resources/ConsumerInformation/ConsumerPrivacy/smallcucomplianceguide

Small CUs May Benefit From Health Care Tax Credit

Small credit unions may want to look into a new small business health care provision to determine if they may qualify for a tax credit.

The credit, authorized under the 2010 Patient Protection and Affordable Care Act, is intended to encourage small employers to offer health insurance coverage for the first time or to maintain current coverage for their employees. It is generally available to small employers that contribute at least half the cost of single health insurance for their employees.

The credit is designed to assist small businesses and tax exempt organizations that primarily employ moderate- and lower-income workers.

Small credit unions may be eligible for the tax credit if:

- The credit union has fewer than 25 full-time equivalent employees for the taxable year;
- The average annual wage of employees for the year is less than $50,000; and
- The credit union makes a "non-elective contribution," which is a contribution that is not made in accordance with a salary reduction agreement and that covers at least 50% of the employees' health care premiums – as long as the credit union provides the same percentage of premium contributions to all employees.

It appears that in order to claim the tax credit, federal credit unions will be required to complete the IRS form. Form 990-T will be revised for the 2011 filing season to enable eligible tax exempt organizations – even those that normally don't report or owe unrelated business income – to claim the small business health care tax credit.

IRS Press Release:
http://www.irs.gov/newsroom/article/0,,id=227404,00.html

FAQs:
http://www.irs.gov/newsroom/article/0,,id=220839,00.html

Section 45R – Tax Credit for Employee Health Insurance Expenses of Small Employers
Notice 2010-44: http://www.irs.gov/pub/irs-drop/n-10-44.pdf

Filene: Four Governance Areas Ripe for Improvement

Credit union directors are unreliable judges of their own effectiveness, and there are several areas ripe for governance improvement, according to a recent Filene Research Institute survey.

When asked to self-judge the quality of their governance and the strength of their credit union's performance, the directors who considered their governance practices good also said that their credit unions performed well. But when the directors were matched with their credit unions' actual returns on assets (ROAs) over seven years, there was no statistical correlation to above-average ROAs.

Volunteer credit union boards display a broad range of competence and engagement, according to *Tracking the Relationship between Credit Union Governance and Performance*, sponsored by the Credit Union Executives Society. The report is the latest in a string of Filene research into credit union governance practices.

The research identifies several best practices that allow credit union leaders to improve both governance and performance. The research shows areas that could be improved:

- Time management – Effective meeting management is a challenge, and boards seem to have only a vague sense of how their meeting time is spent. To improve, boards must know how their time is currently spent and then prioritize agendas to spend more time on strategy.
- Director evaluations – A lack of board introspection means board chairs and other directors need to be proactive in formally evaluating their own contributions. They should consider implementing annual board effectiveness surveys, formal peer feedback, formal reviews of the chair, and feedback from management.
- Continuing education – One way to encourage better governance is to demand individual improvement. Surveyed directors who ranked their boards in the top decile* of governance performance all had formal continuing-education policies, while those in the lowest decile rarely did. [* Decile: a rating, usually of performance, on a scale of 1 to 10 where 1 is best, 10 is worst, and each number corresponds to an increment of 10 percentage points.]
- CEO evaluations – The board/CEO link drives financial performance. The only governance practice that yielded a strong positive correlation with actual credit union ROA performance was whether boards felt they had an effective CEO evaluation in place.

"Credit union governance is one of those issues that never seems urgent, but thinking about it and improving it just might be a more important issue than anything else we face right now," said Mark Meyer, Filene CEO. "As a credit union director myself, I can vouch for the importance of holding ourselves as accountable as we hold management."

Using in-depth interviews and survey tools, researchers from the Rotman School of Management at the University of Toronto plumbed credit union board practices in areas, such as time allocation, decision-making processes, board composition, director selection, board performance measures and credit union performance measures.

The study provides other insights. Time management and meeting inertia are hard to overcome. Credit union directors mirror the feelings of their counterparts on publicly held boards in saying their boards need to spend more time on strategy and risk management, and less time on operational matters and routine items.

Most directors agree that attracting and retaining younger, more diverse directors with a broader base of backgrounds is a priority. Yet, many respondents said they feel challenged to find qualified volunteers who are willing to commit. Many boards seem to be adopting a wait-and-see attitude rather than emphasizing more rigorous recruiting practices such as evergreen lists, Filene said. Several interviewees stressed that it is hard to remove underperforming directors – even when their terms are up – for fear of hurt feelings.

Resource Links
[Filene Research Institute](http://filene.org) (http://filene.org)

Board of Directors Responsibility Quiz

Who in the credit union organization has the authority for making decisions for each of the actions listed below?

- Set the interest rate to be paid on member 5-year term deposit savings
- Write a job description for the position of loan officer
- Change a rule of the credit union bylaws to increase the number of directors serving on the board
- Adopt a credit union objective of active participation in community affairs
- Dissolve the operations of the credit union

Is it the member, manager, board, or any staff other than the manager?

Now, consider who is responsible for the actions taken (as listed). Review each question and determine if one or more of the following are involved. Is it the board of directors, management, the supervisory committee, the member, the credit committee, or the staff?

- Dictates policy for the credit union
- Sets pay ranges for all employees
- Determines vacation schedule for staff
- Reviews and approves loans
- Posts over-the-counter deposits to members' accounts

To take the complete quiz – and review the answers – take the Board of Directors Responsibility Quiz below. This quiz is also posted on the InfoSight website.

Board of Directors: Who Is Responsible Quiz

Listed below are action statements. Who in the credit union organization has the authority for making decisions for each of these actions?

Review each question and determine if one or more of the following are involved and use their code to identify your choice for each statement:

B:	Board of Directors	**M:**	Management
S/C:	Supervisory Committee	**Mbr:**	Member
C/C:	Credit Committee and/or Loan Officer	**S:**	Staff, other than management

1. To set the interest/dividend rate to be paid on member 5-year term deposit savings. ___________
2. To write a job description for the position of loan officer. ___________

3. To change a rule of the credit union bylaws to increase the number of directors serving on the board. ____________
4. To adopt a credit union objective of active participation in community affairs. ____________
5. To dissolve the operations of the credit union. ____________
6. To issue cash to a member wishing to withdraw part of his savings. ____________
7. To approve a salary schedule for a new staff position for the credit union. ____________
8. To hire an employee to fill that new position. ____________
9. To elect a board member to a three year term of office. ____________
10. To adopt a budget. ____________
11. To develop guidelines for office procedures related to filing and storage of credit union records. ____________
12. To evaluate the over-all performance of the credit unions operations. ____________
13. To authorize the introduction of checking accounts as a new service for the members. ____________
14. To release the security when the member has made his final repayment on a loan secured by a chattel mortgage. ____________
15. To set the office procedures to be followed by effecting security on a loan. ____________
16. To determine where to establish new credit union branches in an effort to better serve a scattered membership. ____________
17. To interview a member making an application for a loan. ____________
18. To terminate an employee for poor performance. ____________
19. To establish the credit unions mission statement. ____________

Answer Key – See below

Another quiz continues on the next page

WHO DOES WHAT?

The following questions require you to decide who is responsible for the actions taken. Review each question and determine if one or more of the following are involved.

B:	Board of Directors	**M:**	Management
S/C:	Supervisory Committee	**Mbr:**	Member
C/C:	Credit Committee and/or Loan Officer	**S:**	Staff, other than management

1. Dictates policy for the credit union. ____________
2. Sets pay ranges for all employees. ____________
3. Determines vacation schedule for staff. ____________
4. Reviews and approves loans. ____________
5. Posts over-the-counter deposits to members' accounts. ____________
6. Approves bylaw changes. ____________
7. Appoints member to the credit committee. ____________
8. Oversees actions of external audit. ____________
9. Suspends board/credit committee members. ____________
10. Opens a new account for a member. ____________
11. Performs member account verification. ____________
12. Establishes procedures for implementing loan policies. ____________
13. Approves purchases of new computer system. ____________
14. Sets loan limits for the credit union. ____________
15. Insures adequate internal controls are being followed. ____________
16. Approves a loan to another credit union or institution. ____________
17. Approves credit union budget. ____________
18. Votes at Annual Meeting. ____________

19. Must be a member of the credit union to serve. ____________
20. Hires a new loan officer. ____________
21. Hires a new manager. ____________
22. Markets the credit unions services. ____________

Answer Key (See below)

ANSWER KEY - Who is responsible?

1. Board
2. Management
3. Board
4. Board
5. Members
6. Staff/Management
7. Board
8. Management
9. Members
10. Board
11. Management
12. Board/Management/Members
13. Board
14. Staff/Management/Credit Committee
15. Management
16. Board
17. Staff/Management
18. Management
19. Board

ANSWER KEY - Who Does What?

1. Board of Directors
2. Board of Directors
3. Management
4. Credit Committee or Loan Officer
5. Staff/Management
6. Board of Directors
7. Board of Directors
8. Supervisory Committee
9. Supervisory Committee
10. Staff
11. Supervisory Committee
12. Management/Board of Directors
13. Board of Directors
14. Board of Directors
15. Supervisory Committee
16. Board of Directors
17. Board of Directors
18. Members
19. Board of Directors/Credit Committee/Supervisory Committee, etc.
20. Management/Board of Directors
21. Board of Directors
22. Everybody

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